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THESIS

RECIPROCITY AND COMMERCIAL TREATIES

by


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## CHAPTER I

### INTRODUCTION

#### Interest in trade

Of particular interest at this time are the trade agreements which are being negotiated by the United States with foreign countries under the Trade Agreements Act of June 1934. In order to appreciate the significance of this Act and the subsequent trade agreements, and their probable effect on the lives and activities of our nation, it would seem that we might benefit by looking a little into the background of intercourse between the nations for events which lead up to the present reciprocity program.

The relationship between nations include, beside trade, those items which have to do with investments, loans, interest payments, remittances, gold movements, and many others. However, since so often, when we talk about nations dealing one with the other, we are concerned with the aspect of commerce or trade, we will discuss in this thesis the trade of the United States with foreign countries.

#### Scope of Thesis

An attempt is made herein to comment briefly on the general trade practices and some of the countries where they are now being







carried on; to discuss to some extent the background of the Reciprocity policy in the United States; and to trace the tariff history of the United States, giving a few of the provisions and limitations.

It might be well to pause here to make clear what we mean by the term "reciprocity". Where each of the parties to a treaty makes special concessions to the other with the intention that the transactions shall be looked upon as a particular bargain and with the understanding that its benefits are not to be extended automatically, generally, and freely to other States, the agreement is called a "reciprocity agreement".<sup>1</sup>

With our historical basis, then, the thesis will go on to comment on the Trade Agreements Act, its provisions, the pre-negotiation and drafting procedure, and the countries with whom agreements have been concluded under the Act. It will cite specific agreements and comment on some of the provisions thereof and their implications. An attempt to evaluate somewhat these treaties and their effect on trade and national economy will be made; and to discuss the relative merits (or demerits) of economic nationalism and reciprocal trade relations; and to forecast the possible future of the program.

1. Reciprocity and Commercial Treaties; United States Tariff Commission, Washington; Government Printing Office, 1919, Page 17.



It is an important problem and a vital one and demands that we give it our careful consideration after we have acquainted ourselves with the situation as best we can. The situation summed up, is this, as I see it.

Present  
Situation  
in Trade

Trade between nations is really trade between individuals living in different countries and is, in many respects, exactly similar to trade among individuals in a single country. It takes place for the same reasons that it takes place between individuals living in different sections of the same country; namely, because countries have specialized and can obtain some things they need more easily by offering their own special products in exchange for them than by producing them in their own area. In other words, the principle underlying international trade is the principle of territorial specialization.

The difference in physical and climatic conditions, the distribution of raw materials, the division of labor and the differing degree of technological development throughout the world make it necessary for nations to exchange their goods and services for those of other countries if the most favorable world conditions are to be achieved. Foreign trade is beneficial to all countries alike. It is profitable for each nation to develop those industries in which it has particular natural or technological advantages to produce beyond





domestic requirements. Each nation has come to depend upon other countries as markets for this excess production. In a like manner every country is dependent upon others to supply those goods which it is unable to produce at all, or in insufficient quantities to satisfy domestic needs. Therefore, it is to the advantage of all nations to trade with each other.<sup>2</sup>

There was a time when it was commonly believed that a nation should export as much as possible at the same time importing as little as possible, and so create what is termed a "favorable balance of trade". This is the well-known Mercantile Theory. But Foreign Trade implies a two-way traffic; to sell, we must buy. Exporting is only one phase of foreign trade and should not be permitted to obscure the importance of imports. Indeed it is scarcely an exaggeration to say that we engage in export trade as a nation primarily to permit us to import the many indispensable commodities which we could not otherwise enjoy.

The difference between the value of exports over the value of imports cannot, however, be accepted as correctly representing the condition of our foreign trade. These figures refer only to traffic in commodities. There are other items, termed "invisible" items,

2. Taken from remarks of the Honorable Daniel C. Roper, Secretary of Commerce, before a Foreign Trade Promotion Meeting in Washington, D. C., May 19, 1936.



which are inevitable and must be considered before we attempt to measure any balance of trade. These invisible items include: payments made by American shippers to owners of foreign vessels on which the Americans ship their goods; insurance premiums paid to foreign insurance companies for goods shipped on foreign vessels; remittances sent to their homes by foreigners living in the United States; travel expenses paid out by foreigners in the United States; travel expenses paid out by Americans traveling in European countries; payments in the form of interest and dividends which are sent to holders of American securities living in Europe; loans which are made by American bankers to foreign countries. All of these items will affect the balance between imports and exports of a country.

The endless discussions of the nature of foreign trade which set in with the argument over the possibility of the political debts being paid in any way except in goods and services has gradually educated the public to the view that foreign trade is not a one-sided affair so far as goods are concerned. The public is beginning to grasp the idea that getting money for substantial wealth is not so different from selling to foreigners on their tenuous promises to pay twenty or thirty years hence. Imports of goods pay for exports of goods; wealth is received in exchange for wealth.





So long as the public had the simple conviction that money was the objective of international trade, imports were regarded as little better than armed invaders.



## CHAPTER II

### TRADE POLICIES

#### **Economic Policies**

As nations traded back and forth among each other, the manner in which they treated imports very soon devolved into methods, each country determining upon, and accepting the one which it thought the most advantageous to its own domestic welfare. Needless to say, the keynote, or core, of the policies was "protection". Another reason for tariffs or duties was revenue, with ad valorem or specific duties levied. For "protection", duties were levied on equivalent foreign commodities. Such protection is designed either to compensate for the difference between conditions governing the situation at home and in the country of the principal competitor (countervailing duties) or to create a privileged situation for the home market to the detriment of the foreign commodity (protective duties).

The form of tariff protection is a result of a country's economic policy, very often expressed by the views of those in power. The degree of protection varies with the commodities and in relation to the stage of development of the various industries and the interdependence of their branches.





Tariff protection is also affected by consideration of financial policy. Too often it is the football of political parties and changes with change of administration or balance of power.

Too, Governments may draw up their tariffs as a means of commercial bargaining.

### **Bargaining Incentive**

All of these reasons for tariffs exist but the bargaining incentive is in the foreground at the present time. The means by which terms are reached are many; some produce desired results; others produce retaliation. Unfortunately, there has been much of the "eye for an eye, tooth for a tooth" reaction since the Hawley-Smoot Tariff of the United States.

These means of bargaining between countries depend largely upon the motives of the contractual parties. A country may want: (1) to secure equal advantages with competitors in foreign markets, so that their own products may not be subject to any changes in respect to Customs duties which are not imposed on the commodities of all other competitors, and that they may be granted to other competitors. This guarantee is called the "most-favored-nation treatment"; (2) to ensure that the products of the other contracting party shall only enjoy a reasonable measure of tariff protection, and not a measure so large as to prevent all competition by foreign products, as gained through minimum tariff or conventional





duties; (3) to maintain a just balance between the advantages obtained and those given in order to enjoy the same commercial advantages as the other contracting party. These advantages will be either identical or equivalent to one another.<sup>3</sup>

The tariffs which operate under a system of bargaining will differ, depending to a large extent on the individual country, its domestic state of well-being and its motive in bargaining.

Tariffs may be classified as:<sup>4</sup>

1. Autonomous tariffs--a single statutory tariff, drawn up solely with a view to fiscal, economic and social requirements of the particular nation, and is applied equally to all contracting parties in commercial treaties. This is associated with a principle of non-discrimination.

This system is best suited to a self-sufficient nation which depends little on foreign supply for consumption or trade, and is concentrating on the development of home industry and home markets.

2. Autonomous tariffs subject to increase--since autonomous tariffs grant to contracting parties only the degree of equality which each undertakes, dis-

3. League of Nations, May 29, 1937, Economic and Financial Section...International economic conference, Geneva. Documentation, Commercial Treaties: tariff systems and contractual methods, by D. Serruys, Page 3.

4. Ibid. Page 5.



crimination may arise through the duties on principal commodities exported by one country being higher than those on the principal commodities exported by the other.

Because of this, some countries who operate under an autonomous tariff have retained means of retaliating against countries in which their exports would be subject to differential or burdensome duties. Some governments used these powers as a sort of warning in support of their demand for favorable treatment.

3. Autonomous Tariffs subject to conventional reductions--the threat of added duties, as penalties, has some value but not near as much as the power of the country to set duties at such a rate so that they may be lowered in return for a concession granted by a contracting country.

There were two ways of handling these reductions:

(a) publishing tariff rates so that countries could begin to negotiate if they desired reduced rates; then having the rates go into effect at the end of the negotiation;

(b) setting the tariff rates into effect immediately; since the rates are almost prohibitive, the other countries have no alternative but to enter into negotiations for lower duties.





4. Double Tariff system is one in which a minimum tariff is set up, which is the level of the needs of national industry and therefore, cannot be lowered. A maximum tariff is also set, applicable to countries with which commercial treaties have not been made, forcing them either out of the market or into negotiations. The difference between the minimum and maximum tariff would undoubtedly vary according to the nature of the commodity, the degree to which the home market depends upon foreign supply, and the conditions governing competition abroad. The minimum tariff is an autonomous one, subject neither to reduction or consolidation, so that the country introducing it retains the degree of protection which it thinks necessary, as well as the power to adapt this protection, if need be, to new requirements.

The disadvantages of the double tariff system, since it was first introduced in France, in 1892, have been felt to be mainly in the negotiation of treaties. They are:<sup>5</sup>

A. Once a country had granted its minimum tariff to another country, it had no further means of bargaining, since it can neither reduce or consolidate its rates.

5. League of Nations, May 29, 1937, Economic and Financial Section...International economic conference, Geneva. Documentation, Commercial Treaties: tariff systems and contractual methods, by D. Serruys, Page 8.



B. If the minimum rates are fixed at a rate which appears to be prohibitive to another country's products, there is no possibility of concluding a treaty with that country.

France has sought to overcome these difficulties by the use of intermediate duties between the two tariffs. Attempt to help bargaining power is made by granting minimum rates to some products and reserving the right to subject other products to intermediate duties or even general duties depending upon the concessions granted to her.

Spain attempts to overcome the level of the minimum rate by using it as an autonomous tariff subject to a reduction and consolidation within certain limits only.

6. Preferential tariffs combined with autonomous or with double tariffs--because of geographical location or political conditions preferential rates have resulted. With some of these we are already familiar.

(a) Imperial Preference--the British Dominions reserve the right to grant to the United Kingdom or other members of the British Commonwealth tariff rates which cannot be claimed by other parties in virtue of the most-favored-nation clause.





(b) Territorial contiguity has justified recognized preferential rates as between Spain and Portugal, and Canada and the United States.

**Motives for  
Negotiation**

Our treaties or agreements revolve around the motive for their negotiation.

The oldest and most general of these is the desire to obtain equal trade rights. Each nation when entering into a trade agreement wants to protect its own exports from discriminations in the form of privileges granted to the same or similar exports of a competitor.

This system does not insure continuity of treatment, since by the terms of the agreement, the contracting party offers no guarantee but that of equality, and retains the liberty of introducing at any time tariffs which have not been the subject of any previous stipulation in respect to character or rate.

Another contrasting method, and one which is almost synonymous with the word trade, is known as the most-favored-nation treatment. This clause states that "any favor or privilege which may hereafter be granted, either in virtue of autonomous measures or in virtue of commercial conventions, to the commodities of any third state whatsoever shall be extended to the like or similar commodities of the other contracting party.

The most-favored-nation treatment provides for the extension of further privilege to the third party as



its natural right. Thus, it not only protects the latter from any form of discrimination but also holds out the prospect of an improvement in the treatment offered by the original agreement.

There have been objections made to the most-favored-nation clause treatment on the grounds that:

1. The most-favored-nation clause places at a disadvantage governments which are prevented by their laws from bargaining on their autonomous tariffs as compared with governments which can reduce their rates by convention, for, once the former have granted the latter equal treatment with most-favored third parties, they have no further means of favorable treatment for their own commodities except by reciprocal concessions, unless they modify their own tariff systems.

2. The most-favored-nation clause encourages countries to raise their tariffs since they are obliged under their agreements to apply the same duties to the strongest as to the weakest competitors, and must accordingly fix the duties in proportion to the more serious danger.

De facto reciprocity has been the kind of reciprocity which has resulted from the commercial treaties negotiated since the end of the 18th century.

The attempt has given rise to a series of different contractual systems, among which are:





**Conditional  
most-favored-  
nation treatment** In an attempt to secure a certain measure of de facto reciprocity, there was inserted in a treaty, concluded between the United States and France in 1787, a conditional most-favored-nation clause by which each contracting nation benefits unconditionally by any immunity or privilege which the other party may subsequently grant unconditionally to a third party, but is not entitled to claim any privileges granted on specific conditions to a third party unless it fulfills the same conditions.

Under this system, certain privileges would be granted to a contracting party in return for a specific consideration, and they could only be claimed by other countries, because of most-favored-nation clause, in return for the same consideration.

The objections to this policy may be stated as:

1. It is not always possible for one country to offer the same considerations as is given by another. Eventually equivalent compensation was substituted for identical compensation, but this brought forth a controversy of what are equivalent considerations.

2. The use of the conditional clause has led to some countries setting up duties which only a certain country can fulfill, thus making the conditional clause one of discrimination.





De facto Reciprocity limited to certain Commodities

In order to avoid the disadvantage of the conditional clause, the United States, carried out during the 19th century a number of progressive experiments.

1. They drew up lists of commodities imported from their principal customers; these articles were penalized if the countries in question subjected the exports of the United States to discrimination or unfavorable treatment.

2. They drew up lists of rates which might be lowered at the request of contracting parties, provided that the latter extended equal or most-favored-nation treatment to all or part of the American commodities they imported.

3. They drew up commodities imported from their principal customers; these articles were admitted at privileged rates provided that the treatment was extended to all or part of the United States commodities which they imported.

The Dingley Bill provided for all three of these forms of reciprocity, but only the first two were applied--for instance, in the "Argol Agreements"--whereas the agreements negotiated by Mr. Kasson, containing the third form, were all rejected by the Senate.



**Conventional Duties** This aims to secure de facto reciprocity by means of commercial treaties based on the most-favored-nation clause. The method used was to claim and grant conventional duties for the principal commodities exported by the contracting parties.

This method meets both the requirements of a guarantee for equality of treatment, while bargaining is effectively provided for by the possibility of offering lower rates.

Treaties concluded on this basis usually include a clause in which commodities of particular importance to either contracting party are subject to conventional rates, detailed on attached lists. Thus the autonomous tariff of a country which applies this system is gradually replaced by a conventional tariff, built up with the concessions successively granted to countries with which treaties have been concluded.

Some disadvantages of this practice of combining the most-favored-nation clause with the granting of conventional rates for commodities are:<sup>6</sup>

1. Conventional duties have been so specialized that they apply to only one country, thereby being discriminatory for all others.

6. League of Nations, May 29, 1937, Economic and Financial Section...International economic conference, Geneva. Documentation, Commercial Treaties: tariff systems and contractual methods, by D. Serruys, Page 12.





2. Autonomous tariffs drawn up with a view to conventional reductions have often been fixed at so high a level that there is provided more scope for bargaining--or the other party is compelled to negotiate because the tariff wall is prohibitive.

Through commercial treaties Governments aim to establish permanent markets abroad.

"The objection to the different contractual methods, as a whole, consists in the diversity of the conceptions which they represent and of the methods by which it is sought to express these conceptions. Negotiation is made difficult as much by the multiplicity of systems as by their incompatibility.

"A compromise may indeed be possible between Governments which employ the general most-favored-nation clause and those which adopt the principle of commercial equality and grant no privileges. It has also been possible for Governments which levy conventional duties to reach compromises with those which employ a minimum tariff and exclude conventional duties. Failing identity of system, it is possible to aim at equivalent advantages. Nevertheless, contractual methods continue to become more complicated, and it is perhaps less important to discuss the advantages or disadvantages of any one method than to seek the means by which different methods may be reconciled or to discover compromises by which, in spite of





their diversity, they may be made to afford all the guarantees which are required by Governments desirous of placing their commercial relations on a stable and satisfactory basis."<sup>7</sup>

A this point we might comment briefly on the foreign trade policies of two of the large nations in Europe, those of Great Britain and Germany.

**Policy of  
Great Britain**

Great Britain's policy is largely self-contained, and is a unique attempt to bind together through preferential agreements the far-flung outposts of the British Empire. Thus the essence of Empire preferences is as largely political as it is economic. It attempts on the economic side, however, to provide mutual outlets for the wares of British industry and for those of the Empire Commonwealth. One of its aims has also been to protect and develop certain infant industries in the colonial frontiers. Indeed it is essentially a recrudescence of mercantilism, an effort to revive the flow of commerce by whatever makeshift in a topsy-turvy world.<sup>8</sup>

The German program is entirely different, but of equally great interest to a student of the commercial

7. League of Nations, May 29, 1937, Economic and Financial Section...International economic conference, Geneva. Documentation, Commercial Treaties: tariff systems and contractual methods, by D. Serruys, Page 14.

8. Harvard Business Review, Volume XVI No. 1, Autumn 1937, Pg. 43, article by N. H. Engle on the Reciprocity Agreements.



policy. The Reich under the present regime has subjected foreign trade to a severe and rigid straight jacket. Imports are not only directly restricted, but are also regulated by strict control of foreign exchange.

Four methods of control are used: (1) requirement of a foreign exchange certificate or similar document, (2) the establishment of rigidly controlled monopolies of specified agricultural products and derivatives, (3) the requirement of import permits, (4) miscellaneous controls including sanitary, public safety, mixings and other regulations.<sup>9</sup>

9. Harvard Business Review, Volume XVI No. 1, Autumn 1937, Page 45, article by N. H. Engle on the Reciprocity Agreements.





## CHAPTER III

SURVEY OF THE RECIPROCITY POLICY OF THE UNITED STATES

Chester A. Arthur, twenty-first President of the United States, was the author of what is known as the Reciprocity Policy for promoting the export trade of the United States. However, a reciprocity treaty with Canada was negotiated by William L. Marcy and Lord Elgin in 1854 and continued in from March 16, 1855, until March 16, 1865, but it was unsatisfactory to both countries, because it did not go far enough. It provided for a free interchange between the two countries of natural products from the farm, and sea, and mine, but included no manufactured products, which were not produced to any extent in Canada and were still heavily taxed. Also it did not admit Canadian vessels to the American coasting trade.<sup>10</sup>

**Treaty with  
Canada**

The treaty achieved the principal reason for which it was made--the relief of the tension over the fisheries controversy; but it did not simulate the American fishing industry. The opening of the St. Lawrence River and the Canadian canals to American

10. Annals of the American Academy of Political and Social Science, May 1907, Vol. XXIX, No. 3, "Development of the Foreign Trade of the United States, Page 15.





shipping did not result in an increase in American traffic on those highways but it did allow for a choice of routes.

When we attempt to evaluate the result of the tariff changes on trade between the United States and Canada, we must take into consideration factors, other than trade, which complicated the situation, e.g. increase in population, improvement of transportation facilities, a commercial crisis in both countries in 1857, and finally the Civil War.

During the eleven years of the reciprocity period, the total trade between the two countries increased approximately three-fold, and for the United States, the trade with Canada became second only to that with Great Britain.<sup>11</sup>

The main causes which brought about the abrogation of the treaty were the adoption of protectionist principles and practices in Canada, the resentment aroused in the United States by the attitude of Canada during the Civil War, and the need of increased revenues by both countries. Along with these there was also the dissatisfaction of the fish, lumber, and coal interests in the United States.

The request for abrogation came from the United States. For thirty years afterward, the Canadians con-

11. Reciprocity and Commercial Treaties: United States Tariff Commission, Washington; Government Printing Office, 1919, Page 78.



tinued to seek reciprocity treaties with no success.

The treaty of Washington in 1871 which disposed, among other things, of the fisheries and waterways controversies, was disappointment to the Canadian people. They felt that all their efforts toward reciprocity had been thwarted by this act of the British Government.

Subsequent efforts on the part of Canada to enter into negotiations with the United States were rebuffed, with the result that Canadian public sentiment was aroused toward a "National", self-sufficiency policy and reciprocity was not again attempted until 1910.

#### Treaty with Hawaii

In 1875, a reciprocity treaty was concluded between Hawaii and the United States. The treaty, which was in operation for twenty-five years, was a product of political rather than of economic considerations.

The location, resources, and political weakness of Hawaii made the islands attractive to several strong nations. It was inevitable that the United States should be a bit uneasy about their coming under control of any other power.

In 1851 the King of Hawaii prepared to place Hawaii under the protection of the United States to escape the aggression of a European power. An Annexation Treaty was negotiated in 1854 but was not concluded. The next year, and also in 1867, reciprocity agreements were







negotiated but not ratified. In 1874 another reciprocity treaty was negotiated and ratified the following year.

In 1882, when the treaty came up for renewal, it was admitted that commercially, Hawaii reaped more benefits from the treaty than did the United States. However, political considerations weighed more heavily than commercial ones and the treaty was extended with a provision for the cession of Pearl River Harbor to the United States as a naval base.

The chief consideration which Hawaii received from the United States was the admission, duty free, of the specified products originating in the islands, while similar commodities, when coming from other sources were subjected to substantial rates of duty. The special preference, not the free admission, was the significant feature so far as the effect on Hawaiian Exports was concerned.

It is agreed that economically, the Hawaiian Treaty was unprofitable to the United States. However, when the treaty was concluded, it was recognized that political considerations outweighed commercial ones.

Since the tariff act of 1890 provided for the imposition of penalty duties upon imports from countries which discriminated in their tariff treatment against goods from the United States, it is considered to be the



first authorization ever given by Congress for a comprehensive program of tariff bargaining.<sup>12</sup>

Congress aimed by this act to secure more favorable trade relations with other countries by penalizing such countries as did not treat American products favorably rather than by following the method which had been favored by the administration--that of remitting or lowering duties on the products of countries which in return would make similar tariff concessions. The act gave the President, within prescribed limits, a free hand in negotiations.

Under the terms of this act, Secretary of State, Blaine, began the negotiation of a series of agreements. Between January 31, 1891, and May 26, 1892, ten reciprocity arrangements were concluded. In most cases, the other contracting party agreed to admit free, or at substantially reduced tariff rates, the bulk of its imports from the United States.

During the period of these reciprocity treaties penalties were fairly effective, both as measures of retaliations and as a means of securing tariff concessions. Exports from the United States to the reciprocity countries, showed a substantial increase.

12. Reciprocity and Commercial Treaties: United States Tariff Commission, Washington: Government Printing Office, 1919.





In 1894, the Democratic administration passed a tariff act which did away with the reciprocity provision.

#### Act of 1896

In 1896, with the incoming of the Republican Party, there came a tariff act which again provided for negotiation of treaties and tariff bargaining. President McKinley appointed John A. Kasson, of Iowa, as special commissioner to be assisted by a "reciprocity commission", for the negotiation of agreements under the act.

Two series of agreements known as the "argol agreements" were concluded. The first agreements were with France, Portugal, Germany, and Italy.

An indirect result of the conclusion of these agreements was that Switzerland, through the unconditional most-favored-nation clause of her treaty of 1850 with the United States, claimed and was given, without compensation, the benefit of the concessions extended by treaty to France. The most-favored-nation treaty provision upon which Switzerland based her claim was promptly denounced by the United States with due notice, and in March 1900, ceased to be operative.<sup>13</sup>

In December 1899, the Kasson treaties were presented for ratification but failed to be ratified. In 1909 the tariff act provided for giving to all countries

13. Reciprocity and Commercial Treaties: United States Tariff Commission, Washington; Government Printing Office, 1919, Page 208.





other than Cuba notice of termination of their reciprocity agreements with the United States.

**Treaty with Cuba** A treaty of much importance was that made with Cuba in 1902. The close political relations of the United States with Cuba after the Spanish-American war brought Cuba into the position of seeking continued relationships with the United States. Public opinion in the United States developed in favor of closer economic relations between the two countries and this led up to the treaty of 1902.

The bill provided for a reduction of 20 per cent from the American duties on Cuban imports and reductions of from 20 to 40 per cent from the Cuban rates on American products. The treaty required the approval of Congress.

This treaty was independent of the reciprocal provisions of the act of 1897, and was not connected with the treaties negotiated under that act. It contained the provision that the reductions in duty specified should not be extended to any other country, that during the continuance of the treaty no Cuban sugar should be admitted to the United States at a rate of duty lower than that provided by the act of 1897.

The exports to Cuba from the United States are more marked than the imports from Cuba. The articles of export seem to have varied directly with the amount of



preference received. The fact must not be overlooked that these increases in trade with Cuba have been due not only to the treaty of 1902, but also in considerable part to the favorable influence upon Cuba of the reconstruction program carried out under the assurance of law and order guaranteed by the treaty of 1903. The close political relations between the United States and Cuba, the investment of American capital, the development in the United States of a large-scale export trade in manufactures, and the settlement in Cuba of Americans--these and other factors have operated along with the tariff preference to increase the trade between the two countries.

In 1910-11, another attempt was made to have reciprocal trade treatment with Canada. Negotiations were carried on to arrive at duty reductions and changes in general tariff rates as they applied to various products. Eventually a treaty was arrived at, passed by the United States Legislature and became an Act on the statute books of the United States. However, Parliament in Canada failed to pass on the treaty. Therefore, it failed to be put into effect.

Summing up the reciprocity background of the United States we conclude that the reciprocity experience under the Tariff Acts of 1890 and 1897 taught us certain things to avoid. Each of the three methods contained or developed defects. Experiences with penalty or additional







duties under the Act of 1890 revealed that this method alone was not adequate and it was supplemented in the Act of 1897 by the concessional method without abandoning the penalty method. The argol agreements were satisfactory so far as they went but they showed that no adequate policy can be built on a small list of noncompetitive products, and no long and important list of noncompetitive articles can be formed. Then, the failure of the Kasson treaties demonstrated the futility of a reciprocity policy which provides that Congress shall debate each agreement.<sup>14</sup>

The success of reciprocity under the Acts of 1890 and 1897 was limited by the negative and confining effect of the conditional most-favored-nation clause in our commercial treaty structure. The evil effects of this policy were corrected by the adoption in 1922 of the unconditional most-favored-nation principle.

In spite of their defects, however, the reciprocity methods of 1890 and 1897 pioneered in the field of systematic reciprocity. Although they taught us many things not to do, they also moved reciprocity into a position of national policy.

We have come along from these pioneering days through the conditional most-favored-nation clause to

14. Reciprocity--A National Policy for Foreign Trade, by William S. Culbertson, published by McGraw-Hill Book Company, Inc., Whittlesey House, 1937, Page 162.



the unconditional-most-favored-nation principle, slowly incorporating the principle of reciprocity into our national policy. By careful and patient planning we are now trying to undo much of the harm of retaliatory measures which resulted from our Hawley-Smoot Tariff, by taking the initial step in negotiating treaties under our Trade Agreements Act of 1934. We seek a flexibility of tariffs, under systematic reciprocity, based on rules fixed by Congress but administered by the Executive without action by Congress on individual agreements, and which makes the unconditional most-favored-nation principle an active instrument for the establishment of equal commercial treatment in world commerce.<sup>15</sup>

15. Reciprocity--A National Policy for Foreign Trade, by William S. Culbertson, published by McGraw-Hill Book Company, Inc., Whittlesey House, 1937, Page 174.





## CHAPTER IV

BRIEF HISTORY OF TARIFFS IN THE UNITED STATES**Importance of  
Foreign Trade**

There has never been a time in the history of this country when foreign trade has not played a part in the economic life of the people. Even in prehistoric times, we learn from archeological research that there is evidence of a flow of a primitive form of traffic from Asia by way of Siberia, the Aleutian Islands and Alaska down the coast of what is now the United States. During the colonial era an extensive trade was maintained by the mother countries with their American colonies. Colonies were designed to provide at once sources of raw materials and outlets for the manufactured products of the mother country.

The steady growth of the foreign trade of the United States represents an interesting contrast with our changing commercial policy. Beginning as colonies which were established under the restrictive mercantilistic policy of the seventeenth and eighteenth centuries, we came gradually to resent interference with our commerce. In fact, modern historians claim that the attempted enforcement of the Navigation Acts was the chief cause of the Revolution. This would seem to have set the stage for unrestricted world trade. The new nation, however, was faced with the necessity for raising revenue and hence





imposed import duties which were in part protective to certain American industries, especially the merchant marine. Protection of infant industries soon became a part of American commercial policy under the leadership of Hamilton and the stimulus of the industrial revolution. There were shifts in emphasis, however, from higher to lower tariffs as the old persistent mercantilistic theories waxed or waned, although the restrictive policy of higher tariffs gained ground. Through it all our foreign trade continued to expand as we gradually pushed back the frontier and conquered the continent. The point to remember is that as we grew rich and powerful our foreign trade grew also, reaching the imposing total of over nine and one-half billions in 1929, and this happened despite a policy which was well designed to curb it.<sup>16</sup>

#### Restrictions to Trade

Notwithstanding the advantages of international trade, such trade is restricted to a greater or less degree by the imposition of customs duties upon goods that cross the borders of any country. A list of these goods and the rate of duty on each article is called a tariff. Practically all countries levy import duties on goods brought into the country. These duties are termed "specific" when a certain amount of money is levied for each physical unit of the commodity brought in,

16. Taken from an address by N. H. Engle, Assistant Director, Bureau of Foreign and Domestic Commerce, Department of Commerce, at Portland, Oregon, May 19, 1936.



and "ad valorem" if the tax is a certain percentage of the value of the commodity.

Tariffs are levied for three purposes: (a) As a means of obtaining revenue for a country; (b) As a means of keeping out certain foreign articles while a nation is developing its own manufactories for such goods; and (c) As a means of punishing or retaliating upon other nations for imposing high rates.

### **Tariff Legislation**

The first national tariff law in the United States was that of 1789. It has been claimed that the industrial development of the United States since 1890 has been due to the protective tariff, although many economists attribute it to the country's enormous natural resources. The case for and against the protective tariff has been a political football since 1824, and every four years American voters have sat back and listened to the candidates for presidency argue pro and con about the merits of a protective tariff, and it is quite unfortunate that the tariff as an economic institution has become involved altogether too much with political issues. Every time the administration changes from Republican to Democratic it is a signal for an overhauling of the tariff act, and often when the administration does not change in party the tariff is fixed up anyhow.

The first protective tariff initiated in 1816 was primarily to protect the infant industries. That had







started during the embargo period centering about the war of 1812. This particular protective argument has been based on the fact that the tariff is needed to develop industries in their infancy which when once established should be able to take care of themselves. This form of protection, reasonably applied, is and has been beneficial during the development and transition period of some domestic industries. Unfortunately, this form of protection often has been a cloak for all types of extravagant rates and special benefits.

As a corollary of the infant industry principle, we have the vested industries argument that after an industry has once been established, and that since an establishment has been encouraged by protection, there must be a continuation of this protection. Such protection is considered by its proponents as a vested right.

Shortly after 1832, the movement in favor of protection began to lose strength. The young industries argument at the same time began to be less steadily pressed. About 1840 the protective controversy took a new turn. It seems to have been felt by this time that manufactures had ceased to be young industries, and that the argument for their protection as such was no longer valid.<sup>17</sup>

17. Tariff History of the United States, by F. W. Taussig, eighth edition, G. P. Putnam's & Sons, New York and London, The Knickerbocker Press, 1931, Page 65.



The argument then shifted from infant-industry protection to protection of American labor from that of less highly paid foreign labor. The economic situation had changed and so the discussion of tariff changed correspondingly.

The tariff act of 1832 was distinctly a protective measure with high duties levied on cotton and woolen goods, iron, and other articles to which protection was meant to be given. On articles not produced in the United States, either low duties were imposed, or none at all.

In 1833, the Compromise Tariff Act was passed, and remained in effect until 1842. The compromise provided for protection, to a considerable degree, for nine years, and then a rapid reduction to a uniform 20 per cent rate. In 1832 was the starting point for the lowering of duties. All duties which in that tariff exceeded 20 per cent were to have one-tenth of the excess over 20 per cent taken off in January 1, 1834; one-tenth more on January 1, 1836; again one-tenth in 1838; and another in 1840. By 1840 four tenths of the excess over 20 per cent would be gone. On January 1, 1842, the other half was to go.<sup>18</sup>

Considered as a political measure, the act of 1833 may have been valuable, but as an economic or finan-

18. Tariff History of the United States, by F. W. Taussig, eighth edition, G. P. Putnam's & Sons, New York and London, The Knickerbocker Press, 1931, Pages 110-111.





cial measure, it was not too well drafted.

The 20 per cent duty was effective for only two months for, at that time, September 1, 1842, the tariff act of 1842 went into effect. It was a hastily drafted measure, with little thought placed on the provisions; the duties were high. This tariff was felt to be distinctly a political issue.

It was followed by another political measure, the tariff of 1846. The act established several schedules, listing the percentage of duties to be applied to articles appearing on them. These percentages effected a reduction in duties levied and in some cases put articles on the free list.

Still further reductions were made in the tariff of 1857, which supplanted the act of 1846. The revenue was excessive in 1857, and this was the major reason for the reduction of duties. The act was passed with little opposition and was the first act since 1816 which was not affected by politics. The outline of the act of 1816 was kept with reduction of duties made on the various schedules.

For the period, then, from 1830-1860, we had the following tariffs: in 1832, a high protective tariff; then a gradual reduction of duties, ending in 1842 with a short period of very low duties. From 1846 began what some called a period of free trade, but in reality it was





one of moderated protection. In 1857, protection was still moderated.<sup>19</sup>

There are some who attribute prosperity to the protective tariffs of 1842--and depression to the tariffs of 1833 and 1857. However, the cause for the depressions may be traced to things other than trade, e.g. speculation, over-banking, and panic. However it is generally concluded that the period from 1846 to 1860 was a time of material prosperity, interrupted, but not checked by the crisis of 1857.

This crisis, however, caused the revenue from duties to decrease and resulted in a reaction from lower duties to higher ones. This feeling was culminated in the Morrill Tariff Act of 1861, which began a change toward higher duties and increased protectionism. This tariff proposed a change from ad valorem duties to specific duties, specific duties being in many cases higher than the ad valorem rates.

The Morrill Act had scarcely been passed when the Civil War began. Because of the need of additional revenue to finance the war, duties were raised. In 1862 an internal revenue act was passed imposing specific taxes on production of iron and steel, coal-oil, paper,

19. Tariff History of the United States, by F. W. Taussig, eighth edition, G. P. Putnam's & Sons, New York and London, The Knickerbocker Press, 1931, Page 115.



leather and other articles. Ad valorem duties were imposed on other manufactures.

In 1862, also, was passed a tariff act, which was to increase duties to the point where they might offset the internal taxes imposed. Because of the internal conditions in the country, and the need for money, this bill was passed very easily by Congress, and protectionism won its point.

The tariff act of 1864, passed at the same time as the internal revenue act, brought about a great increase in the rates of taxation. Its object, again was said to be to put domestic producers in the same situation, so far as foreign competition was concerned, as if the internal taxes had not been raised. The need for finances was so great and so unlimited that those who drafted the tariff act had neither the time nor disposition to inquire critically into the meaning and effect of the proposed schedule of rates.

Three forces were at work in 1864 which resulted in this tariff: (1) the urgent need of revenue for the war; (2) the wish to offset internal taxes imposed on domestic producers; and (3) the protectionist leanings of those in power. These forces led to a tariff act which in ordinary times would have been summarily rejected.

The identical duties fixed in 1864 remained for a series of years until 1883, at which time a general re-





vision was made. The duties had become so much a part of the national policy, that the public thought of them as permanent rather than as war legislation measures.

After the crisis of 1873, the tariff question died down a bit. The act of 1872 had brought about a ten per cent reduction because of the excess revenue; its abolition in 1875 was excused by the falling off in the government income.

In 1882, Congress passed an act authorizing the appointment of a Tariff Commission. The majority of those appointed were advocates of high protection. By this act, passed 1883, the duties on certain classes of woolen goods were raised; on most woolens the figures were lowered. With cotton goods, duties were lowered on common grades of goods, but on those where the duty was considerable the duties were raised.

This act of 1883 is described as a half-hearted attempt on the part of those wishing to maintain a system of high protection, to make some concession to a public demand for a moderate tariff system.<sup>20</sup> No consistent policy was followed; some duties were increased, some were lowered.

Within a few years in the act of 1890, duties were raised still higher and protectionism gained more

20. Tariff History of the United States, by F. W. Taussig, eighth edition, G. P. Putnam's & Sons, New York and London, The Knickerbocker Press, 1931, Page 231.



ground. The act was called the McKinley Act and was the great development of the method of minimum duties. This method of grading the duties was applied not only to woolen cloths, dress goods, cotton stockings, velvets, and plushes, but also to blankets and flannels, boiler and plate iron, penknives and table-knives, shotguns and pistols. On some of these articles the minimum system had already been adopted in earlier acts. The object apparently was to avoid an ad valorem duty, and yet to secure an adaptation of the rate of duty to the value of the article.

As a whole the tariff act of 1890, clearly presented to the people of the United States the question whether they wished a large extension of the protective system beyond the point to which it had developed by the legislation of the war period.

In 1892 the Democrats came into control of the lower House of Congress and won besides the Presidency. This gave the Democrats an opportunity to draft a tariff bill along the lines they had advocated. As a result, the Wilson Tariff Act of 1894 was drawn up and passed. It was called a second "tariff of abominations"; it was neither free-trade or protectionist, but catered to "special interests". President Cleveland refused to sign the bill and it was passed over his veto. Many people felt that the threat of this tariff was responsible for the panic of 1893. At the next election McKinley was elected





president and promised to support a revision of the tariff upward.

In 1897, the Dingley Tariff act was passed, which had rates even higher than those of the McKinley Act. Prosperity followed this act and for awhile it received popular acclaim. The resulting high prices of commodities caused the Republican leaders themselves to propose a reduction in tariff rates.

The Payne-Aldrich tariff was passed in 1909, reducing rates somewhat. President Taft's idea regarding protective tariffs diverged from the protection of infant industry, to an equalization of cost of production in the United States and elsewhere in order to maintain the living conditions of American labor.<sup>21</sup>

In 1914, the Underwood-Simmons tariff act was passed by Congress and signed by the President. It lowered many rates and enlarged the free list. To offset any loss in revenue from duties, an income tax was imposed.

In 1922, the Fordney-McCumber tariff was passed and put into effect by the Republicans. It was highly protective both in its purpose and its rates. In 1916 an attempt to take tariff out of partisan differences was made by the appointment of a permanent tariff commission whose duty would be to study the problem and make recom-

21. Digest of Economics, by Thomas J. Lovely, published by Globe Book Company, 1933, Page 237.



mendations to Congress. The tariff act of 1922 gave the President power to alter rates in order to adjust the tariff to changing conditions. Different rates were assigned to different schedules, the highest rates being on sugar and molasses and the manufactures thereof. The next highest rate was on tobacco, then silk and silk goods; the lowest rate on flax, hemp, and the manufactures from them.

These rates assigned were considered extremely high and brought forth much protest.

However, in 1930, the Hawley-Smoot tariff came into being and fairly smothered trade by the prohibitive height of the duties assigned. The act was drafted in 1929 when there was no need for added revenue and apparently no need for protection of home industries; nor was there any political argument concerning it.

Its basis is attributed to the agricultural interests demanding protection for their products. There was much haranguing over the Act, and it was finally passed more or less in the spirit of "getting through with it."

#### Effect of Legislation

All through the tariff legislation the duties on sugar came to the fore, and they appeared as usual in the Hawley-Smoot Tariff. The rate was fixed at 1.76 cents per pound in 1922, and eventually came to rest at 210 cents in this Act. This was set because of the agitation for protection by the





sugar beet growers. Recovery from the post-war collapse had been slow; foreign and domestic producers alike had to face low prices. However, there was no suggestion that the difference between the two in cost and price had changed.

Regarded as a whole, the act of 1930 was futile. The new duties on manufactured goods were mostly of a petty sort; and agriculture eventually had to be given government aid. The high duties caused retaliatory measures to be taken against the United States, and with nations fighting back high duties with higher duties, trade became strangled and relationships between nations strained.

After four years of this disastrous state, the Trade Agreements Act was passed in 1934.



## CHAPTER V

"NEW DEAL" TRADE AGREEMENTS

Our domestic recovery can be neither complete nor durable unless our surplus-creating branches of production regain at least a substantial portion of their lost foreign markets. Our production of cotton, lard, tobacco, fruits, copper, petroleum products, automobiles, machinery, electrical and office appliances is geared to a scale of operations, the output of which exceeds domestic consumption by 50 per cent.

Trade Agree-  
ments Act  
Passed

The reciprocal trade method of bargaining affords us an opportunity to obtain in each country the relaxation of restrictions with respect to those of our export commodities, the sale of which in that country's markets is either of special importance to us or else has been particularly hard hit by recently published restrictions. It was in order to make possible the obtaining of such concessions for our export trade by negotiation with other countries that Congress empowered the President, for a three-year period, to conclude reciprocal agreements and, in connection with such agreements, to modify, within strictly defined limits, customs, duties and other import restrictions operative in the United States.





The second primary need in the field of foreign trade is the freeing and safeguarding of our export trade from adverse discriminations by foreign nations.

Recognition of international cooperation in trade is given by the Reciprocal Trade Agreements Act. This substitutes for unilateral action, in respect to our foreign trade policy, bilateral negotiation of trade agreements, with generalization of benefits to all countries not subject to penalties for discrimination against our trade. This conforms to the multilateral idea in trade by which all countries are reminded of their dependence upon world trade. One of the principles underlying the act is the equality of treatment for all countries.

By these means the United States proclaims to the world that, while her economy necessitates adequate and reasonable protection against the products of cheap labor, freer exchange of goods and services is essential to the prosperity of every nation.

This Reciprocal Trade Agreement, adopted in June 1934, resulted because the administration, under the leadership of Secretary of State Hull, felt there was a vital need for the removal of world trade barriers in general, for a lowering of tariff walls and for a freer international market in which the manufactures and products of the United States might have a fair and equal



chance, rather than to try to exact preferential concessions in our exclusive favor.<sup>22</sup>

The chief basic principles of the agreement are:

(1) The delegation of authority by Congress to the President to lower tariff duties by not more than 50 per cent of the present rate; (2) Adherence to the most-favored-nation policy; (3) Generalization of concessions to other countries which do not discriminate against our commerce; and (4) Limitation of concessions insofar as possible, to commodities and articles for which the negotiating country is the principal or primary source of supply.

There have been many questions arising because of the generalization of concessions granted in a given agreement to other countries with which we have not yet entered into negotiations. This is a rather difficult technical point, based upon our most-favored-nation policy, as against exclusive bilateral bargaining.

To use a concrete example, we might look at our agreement, recently signed, with France. We agreed to a reduction of our tariff rates on champagne. We are now obligated to extend a similar concession to all other countries with which we have most-favored-nation trade relations. By trying to limit such concessions to pro-

22. Nation's Business, June 1936, Pg. 49-50, article by Cordell Hull, Secretary of State, "Reopening Channels of Trade".







# ANNOUNCEMENTS UNDER THE RECIPROCAL TRADE AGREEMENTS

## TRADE AGREEMENTS CONCLUDED

Country	Date Signed	Date Effective
Cuba	Aug. 24, 1934	Sept 3, 1934
Brazil	Feb. 2, 1935	Jan. 1, 1936
Belgium	Feb. 27, 1935	May 1, 1935
Haiti	Mar. 28, 1935	June 3, 1935
Sweden	May 25, 1935	Aug. 5, 1935
Colombia	Sept 13, 1935	May 20, 1936
Canada	Nov. 15, 1935	Jan. 1, 1936
Honduras	Dec. 18, 1935	Mar. 2, 1936
Kingdom of Netherlands	Dec. 20, 1935	Feb. 1, 1936
Switzerland	Jan. 9, 1936	Feb. 15, 1936
Nicaragua	Mar. 11, 1936	Oct. 1, 1936
Guatemala	Apr. 24, 1936	June 15, 1936
Grance and its colonies	May 6, 1936	June 15, 1936
Finland	May 18, 1936	Nov. 2, 1936
Costa Rica	Feb. 19, 1937	Aug. 2, 1937
El Salvador	Feb. 19, 1937	May 31, 1937

## COUNTRIES WITH WHICH INTENTION TO NEGOTIATE HAS BEEN ANNOUNCED

	<u>Issuance of notice</u>	<u>Date for written statement</u>	<u>Date for oral statement</u>
Ecuador	Apr. 5, 1937	May 3, 1937	May 17, 1937

## PRELIMINARY ANNOUNCEMENT THAT NEGOTIATION OF A TRADE AGREEMENT IS CONTEMPLATED

	<u>Date of Preliminary Announcement</u>	<u>Date for submitting suggestions</u>
Czechoslovakia	May 6, 1937	June 6, 1937

ducts for which the foreign country is the most important producer or source of supply, we prevent outside countries from reaping undue advantages.

We need to remember that this arrangement works in our favor also. If a foreign nation with which we have concluded an agreement based on most-favored-nation treatment grants a concession to a third nation, we are likewise entitled to that concession. The whole process thus makes for the general liberalization of trade relations and the removal of the restrictions which have caused such a shrinkage in the volume of commerce throughout the entire world.

To date we have signed agreements with sixteen nations under the Reciprocal Trade Agreements Act. (See opposite page for schedule.)<sup>23</sup>

These agreements which have been concluded have not been reached without much work and thought on the part of our statesmen--and suggestions from interested parties. Too often those of us who are on the sidelines are apt to suppose that trade agreements are reached in a very short time, not knowing of the careful study and planning, adding to and taking out of provisions, and the final wording which is acceptable to the contracting parties.

23. Commerce Report, August 7, 1937, "Announcement under the Reciprocal Trade Agreements Act".





**Procedure**            It would be well at this point, I think,  
**before**  
**Negotiation**        for us to look back at the mechanics of  
the whole procedure leading up to the drafting of the Reciprocal Trade Agreements of 1934.

The organization established for carrying out the trade agreements program and the procedure followed in the preparation for, and negotiation of, such agreements are designed to insure the compilation of all pertinent data, the consideration of all significant factors, the full availability of expert advice, and the receipt of the views of business with respect to proposed trade agreement negotiations. The objectives entail a vast amount of work. An appreciation of the organization and procedure set up for handling it requires some knowledge of the scope and nature of the problems involved.<sup>24</sup>

Some of the problems involved are: export problems, "important source" rule, Government revenues, and tariff adjustments.<sup>25</sup>

**Research**            Studies need to be made not only of the  
**for facts**  
                         domestic market but also of the competitive conditions in world markets. It is necessary to consider the probable effects on American industry and trade of changes not only in the American tariff, but also in

24. Government Publication, Foreign Trade Agreements: Problems, Organization, Procedure and Work Involved, Pg. 2.

25. Ibid. Pg. 4.



the tariffs and import restrictions of foreign countries. Consideration is given to the needs of those industries whose market is wholly national, and also to the American industries who are dependent for existence on world markets. These are the export industries which have always been of outstanding importance in American economy and with which the economic welfare of a large part of American labor, agriculture and industry is linked, but whose interests with respect to tariff matters have in the past received little attention.

In working with export problems, there is required a knowledge of foreign commercial policies and practices and of the economic conditions abroad which produced them. Special consideration must be given to various devices used extensively by certain foreign countries to restrict imports, namely, quotas, exchange control, official monopolies, clearing and compensation arrangements, and import licenses, to the treatment accorded American commerce in this operation of such import restrictions; and to international relations which are now being modified by the negotiation of new commercial pacts between foreign countries. Another important factor involved in American export problems is the existence of American branch plants and factories in foreign countries and the allocation of production between the domestic and the foreign units.





Even though the commodities included in a trade agreement may be relatively few in number, the work involved before arriving at these few is tremendous. Virtually every item exchanged between the country concerned and the United States must be examined. Of the hundreds considered, many have to be discarded because the country is not the chief, or an important, source of the importations. Since the Trade Agreements Act requires that reductions in United States duties made pursuant to a trade agreement be generalized to all countries not discriminating against American commerce, it is important to know what percentage of our imports of any commodity on which a concession is requested is supplied by the foreign country with which the trade agreement is being negotiated. If the country concerned is not the principal supplier, it generally follows that a concession on the product in question will be of greater value if it is reserved for tariff bargaining with a country which is the important source.

Despite the diversity of foreign sources of many important products, our trade with each foreign country usually contains many articles or classes of articles of which the other country is the chief or important source. In the case of all the important trading nations of the world, therefore, there exists a more or less broad basis for tariff bargaining.



The effects of tariff reductions on government revenues constitute another problem for consideration. In the case of certain imported commodities for which the domestic demand is relatively inelastic and on which the existing duty is especially productive of government revenues, the loss in revenues that would result from a reduction in the duty might be out of proportion to any increase in trade which might be expected as a result of a reduction of the duty.

By means of a reasonable adjustment in our tariff, foreign countries may be induced to reduce their barriers against the products of American agriculture and industry. Thus, a net gain for American business as a whole, which will mean increased employment and a higher standard of living, may be achieved. A corresponding gain is likewise possible for the foreign countries which cooperate in the reciprocal reductions of trade restrictions which have throttled international trade.

The trade agreements program is based upon the principle that trade is of mutual advantage. This involves an extraordinary amount of fact finding, study and analysis in order to carry out the Trade Agreements Act. The extent of any proposed reduction of duty, within 50 per cent limit imposed by the Act, must be considered in relation to the needs of American agriculture and industry and must also depend upon the advantages to American ex-





port trade to be derived from the reciprocal reductions in trade barriers.

These problems which have been cited give us a little insight into the careful research done to satisfy the interests of the whole nation, rather than those of special or local groups. This means that American economy must be studied in perspective, be examined in its international aspects, and be analyzed in its particulars with reference to individual commodities and to the special problems of agriculture and labor. Because of the many angles to be considered, the program is dependent upon the cooperation of many departments and agencies of the Government and also upon the cooperation of business.

**Committee on Trade Agreements** The work of the trade agreements program centers around the departmental Committee on Trade Agreements on which are represented the Departments of State, Commerce and Agriculture, the Treasury Department, the Tariff Commission, the Office of the Special Adviser to the President on Foreign Trade, and the National Recovery Administration. Broad questions of commercial policy are referred by this committee to the Interdepartmental Executive Committee on Commercial Policy. The Committee for Reciprocity Information was established for the purpose of providing business a convenient channel through which to bring its views in regard to proposed agreements to the attention of the trade agreements organization. There has been set up in the Department of State



a special division known as the Division of Trade Agreements, for the purpose of administering the program and coordinating the activities of the various governmental agencies participating in the trade agreements work.

The Committee on Trade Agreements is the nucleus of the interdepartmental trade agreements organization. It considers all matters of policy, reviews each proposed agreement and examines in detail the concessions recommended for inclusion in the schedule.

This committee at present has twenty-eight interdepartmental sub-committees grouped under these headings:

Country Committees, Commodity Committees and Special Committees. The members of these subcommittees constitute a personnel consisting of almost one hundred officers, economists, and experts of the government.

#### Country Committees

For each country or group of countries with which it is proposed to enter into trade agreement negotiations, a country committee is established to formulate for the consideration of the Committee on Trade Agreements the schedules of concessions to be requested and concessions which might be granted. It is the Country Committee's duty to assemble and analyze all available pertinent data from both official and private sources, including the information and views submitted by interested persons to the Committee for Reciprocity Information. The schedule of concessions





to be requested is based upon the data and recommendations submitted to the Country Committee by the experts of the Department of Commerce; the schedule of concessions which might be granted is based upon the data and recommendations of the experts of the Tariff Commission. The proposals of these experts are carefully examined and may be rejected, modified, or added to as the result of further information and technical opinion supplied by the representatives on the Country Committee of other units of the Government, such as, the Departments of State and Agriculture and the Treasury Department.

The recommendations of the Country Committee are submitted to the Committee on Trade Agreements in the form of a report consisting usually of several volumes. There are contained therein the reasons for each recommendation made and the supporting data. The report, as finally amended and approved by the Committee on Trade Agreements, is then submitted to the President for tentative approval before active negotiations with representatives of the foreign country concerned. Questions arising in the course of negotiations may be referred to the proper Country Committee for consideration and recommendations, and members of such committees may be called upon to sit in on the negotiations to advise the American representatives.



### Other Sub-committees

The Commodity Committees are established to study special problems involved in trade negotiations with respect to a class or group of commodities. Their studies are made available to country committees for use in the preparation of tentative schedules.

The Special Committees are established to study particular problems involved in trade negotiations with respect to matters involving questions of general policy, such as quotas, exchange control, and discriminations against American commerce.

The personnel of the commodity and special committees includes in a number of instances experts of departments or agencies of the Government other than those participating actively in the program. This is in accordance with the aim of the trade agreements organization to obtain with reference to any problem at hand the most complete information and the best technical advice available.

### Committee for Reciprocity Information

The purpose of the Committee for Reciprocity Information is to afford business a full opportunity to make known its views with respect to proposed trade agreement negotiations. Business interests are invited to submit to this Committee written statements of their views regarding the trade negotiations with countries concerning which a public announcement has





been made. Persons who have submitted written statements but who desire to present further views orally, may make application to do so. The hearings before the Committee may be attended by anyone who desires to attend them.

The regulations of the Committee for Reciprocity Information governing the form and manner of presenting views appear regularly in Commerce Reports of the Department of Commerce and in Press Releases of the Department of State and are contained in the July 12 and September 6, 1934, numbers of Treasury Decisions of the Treasury Department.

**Intention to  
Negotiate**

The public notices of intention to negotiate a trade agreement are published officially from time to time in the three weekly periodicals named above. In order that interested persons may have ample opportunity to present their views, a period of at least six or seven weeks following the date of the public notice of intention to negotiate a trade agreement is usually allowed for submitting written statements to the Committee. Oral statements are usually received about one week later.

At the time public notice is given of intention to negotiate a trade agreement, the general nature of the trade between the United States and the country concerned is indicated by tables of statistics in regard to the principal commodities entering into the trade. Additional



statistical information in regard to any article of import or export may be obtained upon request from the Division of Foreign Trade Statistics or the District Offices of the Department of Commerce. Other information in regard to trade or tariff matters may be obtained from the Department of Commerce or the Tariff Commission. It seems reasonable, therefore, to assume that American producers, importers, exporters, and other interested persons would know whether the country with which a trade agreement is to be negotiated is of any consequence as a source of supply, or as a market for the product or products in which they are interested, and that they would know also the factors affecting the trade in such products. As in the case of tariff revision in the past, such persons are given an opportunity to make their views known.

All information received either orally or in writing by the Committee for Reciprocity Information is referred promptly to the appropriate Country Committee for careful consideration. Every pertinent suggestion or fact submitted with respect to either the import or the export trade receives full consideration along with the information available from governmental sources.

The Committee for Reciprocity Information greatly facilitates the work in connection with the trade agreements program. It supplies to the Country Committee





in an organized and digested form the sort of information which formerly was obtained by means of congressional hearings and, at the same time, relieves the Country Committee from the pressure of personal contact by interests seeking special favors. This system therefore permits to a far greater extent than has been possible in the past a scientific treatment of tariff problems.

The details connected with treaty negotiations are necessarily numerous, almost endless it seems, but the data needed is so great, and its interpretation so vital, that adequate time and energy must be given to them. These agreements, when consummated are binding on the contracting countries until due notice is given of termination dates. Therefore the utmost care must be taken that they include exactly what they were set up to accomplish.

These agreements are the work of statesmen who have had years of experience behind them linked with experts who have been gathered together from various fields. These statesmen have worked toward this end because they feel that unless we can export and sell abroad our surplus production, we must face a violent dislocation of our whole domestic economy.

Our national economy has been geared to support millions of workers in occupations which have come to be vitally dependent upon foreign markets.



The American trade agreement program seeks the protection of American agriculture and industrial interests by the liberalization of world trades. That is why the program is of extreme consequence, not only to the United States but to other nations as well. What matters is not selfish trade advantages gained by individual nations over their competitors, but the gradual liberalization of world trade through the adopting similar programs by other nations.<sup>26</sup>

26. Taken from address given by Francis B. Sayre, Assistant Secretary of State, before the World Trade Conference, Detroit, Michigan, March 10, 1936, "Trade Policies and Peace".





## CHAPTER VI

SPECIFIC TRADE AGREEMENTS

All of the agreements allow very valuable concessions and are steps forward in this progressive trade program we have initiated. There are some agreements which we feel are particularly momentous, and those we will comment on briefly here.

**Agreement with Canada** Of particular interest to the country is

the agreement with Canada, signed November 1935 and effective January 1, 1936. It is of major concern, not alone because of the advantages in trade which obtain to both Canada and the United States, but because of Canada's relationship to Great Britain.

It is felt that the Canadian Agreement is an opening wedge for the inclusion of the United Kingdom and the whole empire in the circle of nations that are to follow the United States out of high protectionism just as they followed it into such a situation.<sup>27</sup>

Under the most-favored-nation clause, which is the foundation of the studied policy of world generalization of each particular agreement, all the concessions given to Canada extend equally to the whole British Em-

27. Taken from an address by W. E. Dunn, Assistant Director of the Bureau of Foreign and Domestic Commerce, Department of Commerce, before a dinner given by the Foreign Trade Club of Baltimore, in Baltimore, Md., May 19, 1936.



pire except as its tariff and trade laws may discriminate against the United States. But section 338 of the Tariff Act of 1930 makes every port of the British Empire which maintains its own separate tariff rates or regulations of commerce an independent nation for the purpose of the Act, which means from the American point of view, that in these reciprocal agreement negotiations all special concessions within the British Empire are in principle discrimination against the United States. In turn, that potentially means no automatic favors for them and that even a 50 per cent punitive duty can be imposed by Presidential proclamation upon all those self-governing ports of the British Empire which are included in the Ottawa Imperial Conference preferential tariff agreements.

The signing of the agreement with Canada in November 1935 was considered a major accomplishment because of the innate protectionism of the politically dominant Canadian east, and of the eastern industrial and midwestern agricultural interests in the United States and the strength of special interests in each country, which resulted in a reversal of the trend of recent years. In this agreement, Canada lowered the tariff on all items a little. The United States concessions were more substantial, but on a limited number of special and selected products.





Canadian-American Trade Relations background was uniquely favorable to any kind of treaty. Its total trade, even at its lowest point, was considerably larger than between any other two countries; United States investments in Canada, which are paying current interest are more than the total United States foreign investments paying interest in the rest of the world; while Canadian investments in the United States are proportionally even larger, and make Canada one of the half-dozen largest capital lenders in the world.

Roughly, one fourth of Canadian manufacturing industry is owned and controlled by the parent company across the border. The United States tariff policy is to protect labor on the farm and in the factory. No product which is largely the result of labor is permitted entrance. On the other hand it is certainly the United States industrial policy, and to some extent the tariff policy, to secure industrial raw materials that are the product of favored natural resources, as cheaply as possible. The implications of the policy are unfavorable to Europe and Japan, but not to Canada.

The United States made concessions, limited by quotas, on some agricultural products, lumber, fish. A number of other items were guaranteed against a change of duty and consisted largely of other electro-products now



on the free list, such as pulp, newsprint, cyanide, sodium cyanide, and various metals.

The specific Canadian reductions were principally on oranges and other fruits and vegetables, farm implements, machinery and other iron and steel items. A more general change was the application of the intermediate tariff rates chiefly affecting textiles, automobiles, and automobile parts, and petrol.

It is evident that economics and politics were skillfully combined. The guarantees against tariff increase on a number of products that were actively threatened, and the tariff reductions by the United States on electro-products (which will be of chief direct advantages to a relatively small number of manufacturers in both countries), together with the Canadian reductions in iron and steel, are most encouraging steps toward continental rationalization.<sup>28</sup>

In fact, perhaps the most significant criticism of the treaty is that it has been greeted for the most part, with relief rather than with opposition by the vested protective interests on both sides of the border.

The direct concessions extended by Canada to the United States under the agreement fall into four general groups:

28. Analysis of Canadian-American Trade during the first year under the Reciprocal Agreement, May 28, 1937, Department of State.





1. Direct reductions on a large list of specified items;
  2. Assurance to the United States on all other commodities of treatment as favorable as that accorded to any non-British country, thus bringing duties on all American exports to Canada down from the "general" to the "intermediate" or a still lower level in the Canadian three-column tariff;
  3. Relief from arbitrary valuations that had been supplied to many commodities; and
  4. Benefits to commercial travelers and transit trade passing through the United States, as well as exemption from duty of purchases of Canadian travelers in the United States up to \$100.<sup>29</sup>
- Agreement with France** Another agreement of importance in our step toward reciprocal trade relationships is that which was signed by the United States and France at Washington on May 6, 1936. It is felt that this agreement will go far to restore mutually advantageous trade relations between the two countries. This was the 13th agreement included by the United States under the Act of 1934, and the fifth made with a European country. It is the first comprehensive trade agreement made with France in over a century and constitutes a landmark in

29. Reciprocity--A National Policy for Foreign Trade, by William S. Culbertson, published by McGraw-Hill Book Company, Inc., Whittlesey House, 1937, Page 77.



Franco-American commercial relations. The provisions became effective on June 15, 1936.

By this agreement the United States is assured that, with few unimportant exceptions, it will enjoy the most favorable tariff treatment which France now or hereafter accords to any country, thus removing the discrimination against the United States which has heretofore existed with respect to a large number of commodities. The duty reductions resulting from this provision, together with special duty reductions expressly provided in the agreement, the continuance of present tariff rates on other commodities, and provisions increasing the quotas admissible from the United States, result in advantages affecting over one-fourth of the total imports from the United States to France. The proportion of dutiable imports benefited is much higher, since nearly half of the American products entering France are, and long have been, free of duty, since they are in the nature of materials required by French industry. In return the United States has reduced duties, or bound the continuance of the present rates, on articles representing about one-third of the total imports from France into this country. On the Basis of 1935 trades, the benefits affect American export products to a value of 24.5 million dollars.<sup>30</sup>

30. Trade Agreement Between the United States and France, signed May 6, 1936, Analysis of the General Provisions and Reciprocal Concessions, Department of State.





Before the enactment of the Trade Agreements Act of June 12, 1934, attempts to work out a satisfactory basis for trade between the two countries had proved futile. Therefore this trade agreement with France is doubly important, not only because of the direct advantages which American trade receives from the tariff concessions which the United States obtained under the agreement but also because it provides an example of the effectiveness of the reciprocal trade as a means of securing the removal of restrictions and discriminations against United States foreign trade.<sup>31</sup>

Following the war, and in the early years of depression, our exports to France were subjected to an excessive number of trade restrictions and discriminations. As a result of these and other factors American exports to France dropped from \$265,000,000 in 1929 to \$111,000,000 in 1932, or by nearly 60 per cent.

Among the American products on which France gave important tariff concessions are: grapefruit and canned pineapples (unsweetened), dried prunes, raisins; and certain automobile parts and accessories, spark plugs; sewing machine heads, cash registers, and fountain pens; motion picture films and vulcanized rubber.

31. Reciprocity--A National Policy for Foreign Trade, by William S. Culbertson, published by McGraw-Hill Book Company, Inc., Whittlesey House, 1937, Page 78.



In addition to these items United States exports benefits under the most-favored-nation clause from reductions in duties on hundreds of products, of which the following are among the most important: whole (milled) rice; refrigerating apparatus and a number of other types of machinery; tires and tubes and various other rubber manufactures; paraffin wax; certain kinds of paper, and wall board and insulating board.

Under the quota provisions of the agreement the United States received increased allocations for an important group of commodities, of which the chief ones are: fresh apples and pears, canned salmon, logs and lumber, silk hosiery, passenger automobiles and automobile bodies, agricultural machinery and tractors, radios and radio tubes, electrical household refrigerators and refrigerating apparatus, and typewriters and certain tools.<sup>32</sup>

A summary of the concessions made by France follows:

1. Reduction in 19 rates of duty affecting products of which the imports into France from the United States in 1935 were valued at about 53,500,000 francs (about \$3,560,000); some of these reductions are of only nominal percentage and serve mainly to assure trade stability;

32. Reciprocity--A National Policy for Foreign Trade, by William S. Culbertson, published by McGraw-Hill Book Company, Inc., Whittlesey House, 1937, Page 79.





2. Continuance of the existing rates of duty on a number of articles on practically all of which the United States already enjoyed the minimum rates of the French tariff, the value of the imports of these articles in 1935 being about 77,100,000 francs (about \$5,140,000);

3. Auto concessions on 44 products, either in the form of supplementary quotas or of definite allocations to the United States where no separate allocation had been given before; the value of French imports of these products from the United States in 1935 was 205,900,000 francs (about \$13,730,000);

4. Assurance with regard to the purchase of American leaf tobacco by the French Tobacco Monopoly for the 1936 season; the value of the import of this article in 1935 was 37,400,000 francs (about \$2,490,000);

5. Assurance that the treatment of American motion picture films for exhibition in France will be no less favorable than at present.

In addition to the advantages thus secured to the United States on specified commodities, its General Provisions are of major importance. Hereafter, with very minor exceptions listed in the agreement itself, American products exported to France or to its Colonies and Possessions will enjoy the benefit of the most favorable tariff treatment accorded any country. As a result, many American commodities, heretofore paying the maximum or intermediate



rates of the French tariff will hereafter enjoy the minimum rates; the value of the trade affected by this change on the basis of 1934 statistics, was about 90,000,000 francs (about \$6,000,000). This figure understates the importance of the concession because the discrimination itself operated to curtail the American share in French imports of these commodities.

**Summary of Con-** Concessions granted to France in the  
**cessions by the**  
**United States** trade agreement involve reductions of

71 items affecting 51 tariff paragraphs of the act of 1930. These items in 1935 accounted for \$19,070,000 out of \$58,333,000, the total imports into the United States from France in that year. Two items accounting for \$571,000 additional in trade in 1935 are bound.

From the standpoint of present trade the most important articles upon which reductions in duty are made by the agreement are cigarette paper, brandy, champagne, still wines and vermouth, vanilla beans, lace, tinsel products, broadsilks, and Roquefort cheese.

As a safeguard against the possible effect of any exceptionally large change in the relative value of the currencies upon the measure of protection afforded by their respective duties, the agreement provides that if there should be so wide a change in the relative value of the currencies of the two countries as to prejudice the industries or commerce of either country, the country





concerned may propose negotiations for the modification of the agreement or terminate it in its entirety on thirty days' notice.

#### Agreement with Cuba

The agreement with Cuba is a special case, the concessions granted by the United States and Cuba to each other not being extended to any other country. The preferential treatment of Cuban trade by the United States is justified on the ground of special geographical and historical relationship. In line with this policy, the United States grants exclusive concessions on Cuban sugar, rum, tobacco, and off-season fruits and vegetables in return for augmented tariff advantages for United States agricultural and industrial products numbering several hundred items.<sup>33</sup>

The Cuban-American Trade Agreement has been in force for two years and the rate of recovery in trade between the two countries has been most pronounced. During the second full year of the agreement, the value of United States products sold to Cuba aggregated 64 million dollars, as compared with 55 million dollars during the depressed two-year period preceding the agreement. Compared with that two-year period the rate of increase in the value of our exports to Cuba was 85 per cent for the first agreement year and 113 per cent for the second.

33. Analysis of Cuban-American Trade during the first two years under the Reciprocal Agreement, January 19, 1937, Department of State.



The value of American imports from Cuba reached the figure of 151 million dollars during the first twelve months under the agreement, after an exceptionally low average value for the two preceding years of 51 million dollars.

**Pending agree-** A treaty with Czechoslovakia is now in  
**ment with**  
**Czechoslovakia** the process of being negotiated. Intention to negotiate has been issued, and those persons and firms interested in the terms thereof are presenting their views to the proper committee. There has been much controversy over the reduction of duties on shoes. The Shoe Manufacturers are much aroused and feel that any such agreement would sound the death knell of the domestic production of shoes, on the argument that American manufacturers cannot compete with those of Czechoslovakia because of the higher labor costs in the United States. The groups have not yet come to any decision concerning the terms of the agreement.

**Proposed agree-** Another treaty has been in the process  
**ment with**  
**Great Britain** of formation for the last year, that of the United Kingdom and the United States. The Imperial Conference which started on May 14, 1937, was felt to hold the fate of that agreement in its midst. There are those who feel that the ultimate success of the Administration's reciprocal trade program hinges on this agreement because it will provide an outlet for farm products if negotiated,





and probably give the impetus necessary to complete agreements with the rest of Continental Europe.<sup>34</sup>

Three developments are anticipated; trade pacts within the empire are expected to be extended on a bilateral and more liberal basis; Great Britain will have extensive, if not complete, cooperation of members of the empire in working out a trade agreement between this country and each of the dominions; and this vast program of lowering trade barriers will stimulate similar moves with other countries which will have the beneficial effect on trade that was expected to come out of the World Economic Conference of 1933.

It was felt that the agreement with Canada, already consummated, would be an opening wedge in any future agreement which might be negotiated with the United Kingdom.

34. Business Week, May 15, 1937, Pages 13-14, "New world trade deal planned; United Kingdom--United States".



## CHAPTER VII

EVALUATION OF TRADE AGREEMENTS PROGRAM

The third year of negotiations under the Trade Agreements Act of June 1934, drew to a close, and efforts were being made to have Congress extend the authorization to the President for another period. In order to present forceful reasons for the continuance of this purpose, adopted during an acute domestic crisis, it was necessary that some kind of an evaluation of the program, its scope and results, be made.

**General Results** It cannot be expected that results could be overwhelmingly in favor of the agreement objectives. The program was a new one, promoted by the United States at a time when nations were in a state of economic distress. Millions of people throughout the world were unemployed and in want. The decline in international trade had been a major factor both in causing and in aggravating and prolonging the economic depression. Worldwide economic dislocation was leading rapidly toward a general breakdown in both the internal life and the external relations of nations. In the United States the grim hand of economic disaster had reached into every phase of our national life. This was the situation in which we found ourselves after a post-war decade of rising trade barriers, climaxed





in our own country by the passage of the Hawley-Smoot Act, and abroad by a group of new trade restrictions, partly in retaliation against the Hawley-Smoot Act, such as the world had never before witnessed.<sup>35</sup>

It was to meet this crisis in our foreign trade and to head us back gradually in the right direction that the Trade Agreements Act was passed. Considering the tremendous difficulties that have had to be faced, great progress had been made. Trade agreements with sixteen countries have been concluded; agreements with Spain and Italy, which had been started have been suspended until the internal upheavals there warrant a renewal of negotiations; plans to negotiate an agreement with Czechoslovakia have been announced.

#### Review of Progress

Three significant facts stand out from a review of the progress under this program for negotiating agreements with foreign countries. First, the United States has been able in this period to conclude such agreements with sixteen countries, which together normally account for well over one-third of our total exports and imports. Second, the program has appreciably expanded the volume of total American foreign trade in both directions. Third, our trade with those nations with which agreements have been

35. Taken from address given by Lynn R. Edminster, Chief Economic Analyst, Division of Trade Agreements, Department of State, at the Second Institute of International Problems, sponsored by the Foreign Policy Association, New York, March 13, 1937, "The Trade Agreements Program in Retrospect and Prospect".



concluded has increased to a greater extent than that with the non-agreement countries.<sup>36</sup>

In the case of most of the agreements which had been in effect for a sufficient period of time, and under circumstances which allow a fair judgment, the trade of the United States with each has shown a greater increase than our trade with the world generally. While varying with regard to individual countries, American exports to the trade agreement countries as a whole showed an increase of 14 per cent during 1936 over 1935, while our sales to non-agreement countries registered only a 4 per cent gain. Similarly, the value of the products imported from the trade agreements countries rose during the past year by 22 per cent, as compared with a 16 per cent increase for the non-trade agreement countries. In general, with those countries with which agreements were in effect during the entire calendar year 1936, the trade showed a more marked gain than in the case of countries with which agreements were in effect only part of the year.

It is difficult to determine whether the agreements in themselves resulted in a larger expansion in imports or in exports. In any case, the amount of that influence was small compared with the broader factors.

36. Commerce Report, May 15, 1937, Page 385, "Progress of the reciprocal trade agreements program", by H. Chalmers.





affecting the trend of the trade balances of the United States and other industrial countries during the past year.<sup>37</sup>

We have made a general statement concerning the percentage gain in trade due to the trade agreements negotiated. Very definite progress toward the goal set by Congress has been achieved.

Let us look for a moment into specific concessions obtained. These concessions have been of benefit to a wide class of our agricultural and industrial export products.

One of the serious situations which our farmers were facing in 1934 was the increasing trend toward national self-sufficiency in foreign countries and, in consequence, a growing movement for extreme protection for agricultural products in countries on which we were normally dependent for the sale of large quantities of our agricultural surpluses.<sup>38</sup> To our farmers and agricultural interests, therefore, the trade agreements program is a matter of great vital importance. Despite these policies of agricultural self-sufficiency which are

37. Commerce Report, May 15, 1937, Page 383, "Progress of the reciprocal trade agreements program", by H. Chalmers.

38. Statement made by Francis B. Sayre, Assistant Secretary of State, before the Committee on Ways and Means of the House of Representatives in the Course of Hearings on House Joint Resolution No. 96, commencing January 21, 1937, "The Conditions in 1934 which the Trade Agreements Act Was Designed to Remedy."



extremely difficult to combat, tariff and tax reductions and liberalization of import quotas have been obtained with respect to agricultural commodities that comprised nearly a third of our 1929 agricultural exports to trade agreement countries. In addition these countries have bound on their free lists or at existing favorable rates agricultural products which accounted for almost another third of our farm exports to them. Moreover, due to our policy of equal treatment to others we have by means of general provision secured in return non-discriminatory application to American trade of remaining restrictions and have also secured the assurance of any benefits which may in the future be extended to other countries.

Literally hundreds of concessions in one form or another have been granted to us for our farm products in contrast to the relatively few and limited concessions granted by us in favor of foreign agricultural products.

#### **Specific Concessions**

Canada made reductions ranging from 12 to 65 per cent on fresh meats, bacon, ham, lard, cured meats, extracts and other meat products, and thirteen other countries have granted concessions on American meat or other animal products exclusive of fish. Cuba, which was once the ranking outlet for American lard reduced its duty from a rate equivalent to 9.8 cents a pound to 2.3 cents per pound in the first year of the agreement and agreed to a further gradual reduction to





1.5 cents to be reached in the third year. Moreover, Cuba, as provided for in the agreement, at the end of the second year, abolished its consumption tax of one cent per pound on lard.

Concessions of direct benefit to the American citrus fruit industry had been obtained in 13 of the agreements concluded thus far.<sup>39</sup>

Fourteen of the agreements secure duty reductions, or guarantee not to increase present duties, on fresh, canned or dried vegetables. In some cases all duties were removed and certain vegetables placed on the free list. Canada, in particular, has given this country far-reaching concessions on vegetables. The duty was removed entirely from sweet potatoes, eggplants, and artichokes; the basic ad valorem rates on most other fresh vegetables were reduced by fifty per cent; and valuable concessions were obtained in regard to the minimum specific duties and increased valuations applicable during the season when our vegetables compete with Canadian vegetables.

Canada, Switzerland, the Netherlands and Guatemala have granted concessions on wheat. Canada, Cuba, the Netherlands and four Central American countries have given concessions on wheat flour. The United States has received substantial concessions from Haiti on butter and

39. Statement made by Francis B. Sayre before the House during Hearings on House Joint Resolution No. 96, commencing January 21, 1937, "The Conditions in 1934 which the Trade Agreements Act was Designed to Remedy."



and cheese. Six countries have agreed to continue their present favorable treatment of imports of American raw cotton; five have granted concessions on cotton yarn, ten on various cotton textile manufactures; and two countries have granted concessions on cottonseed cake and oil.

There are also numerous concessions which cover a wide range of manufactures and semi-manufactures which are of benefit to industrial interests. Among important groups of commodities thus benefited are iron and steel semi-manufactures, automotive products, electrical apparatus, industrial agriculture and business machinery, rubber products, paints and allied products, hides and leather products, and textiles.

An extensive range of concessions have been obtained on the products of steel rolling mills and steel fabricating plants, notably in the Canadian, Cuban and French agreements.

The rubber industry benefits not only from the easing of foreign restrictions on motor vehicles, but also from the direct concessions on rubber tires or inner tubes in every agreement except those with Belgium and Costa Rica.

In order to open up trade routes it is necessary that the granting of concessions be a two-party agreement. This essential factor seems to be forgotten or omitted by those who oppose the Trade Agreements pro-





gram. These individuals seem perfectly satisfied as long as we are being granted reductions or concessions, but they seem not to go that second step and realize that we must give if we hope to receive.

Naturally then, there are concessions which have been granted by the United States in return, upon which we should comment. The United States has granted moderate tariff reductions; but not a single reduction has been made except after the fullest and most careful study of what would be its effects direct and indirect upon domestic industries.<sup>40</sup>

Many of the non-agricultural concessions granted by the United States are on products used in advanced industries or in construction and by virtue of their effect in reducing production costs are of benefit to American producers and consumers alike.

Concessions granted by this country on agricultural items have been few. Many of our agricultural concessions involve products which are not competitive with those of our own farms.

The few concessions granted on the remaining competitive agricultural products were extremely moderate. In most cases concessions on competitive agricultural products were accompanied by strict limitations on the

40. Statement made by Francis B. Sayre before the House during Hearings on House Joint Resolution No. 96, commencing January 21, 1937, "The Conditions in 1934 which the Trade Agreements Act was Designed to Remedy."



quantity which may be admitted at the lower rates or on the seasons when reduced rates apply.

Since the initiation of the trade agreements program, the countries to which the United States extends its concessions (except Germany and Australia) have granted to one another (and to Germany and Australia) concessions of many sorts affecting many products. In total these concessions are a vast number, considerably more than the number of concessions which have been granted by the United States in the same period under all the trade agreements. Because the United States, in application of the unconditional most-favored-nation policy, extends its concessions to these countries, these countries in turn have very generally extended their concessions to the United States.<sup>41</sup>

The increases in American imports resulting from the extension of the trade agreement concessions to third parties, and in American exports resulting in return, cannot be measured statistically--there are too many factors which enter into the consideration. A rough estimate, however, may be made by comparing the share of United States imports affected by the extension of the trade agreement concessions with the share of United States exports that would have been subjected to a degree

41. Press Release, June 1937, "Adherence by the United States to the Unconditional Most-favored-nation Policy in connection with the Agreements Program."





of risk approaching certainty of receiving treatment in foreign markets less favorable than that which it actually receives, had the United States granted its concessions as exclusive preferences or on a conditional most-favored-nation basis.

The imports into the United States (on the basis of 1934 figures) which have been affected, in the sense of being made subject to increase, by the extension of the trade agreement concessions to third countries amount to roughly \$30,000,000.

The exports of the United States on which are now levied in the countries of their destination the lower of two (or more) existing rates of duty applicable to the respective products concerned amount to roughly \$265,000,000. This is the share of our exports (on the basis of 1934 figures) which would almost certainly be deprived of the favorable treatment which it now enjoys if the United States attempted to operate trade agreements program on the basis of some other than the unconditional most-favored-nation policy.

As in the case of the United States, the rates applied by other countries lower than their general or maximum tariffs have generally been established in agreements are generally granted only to imports from countries which enjoy most-favored-nation treatment. We, who are proponents of the Trade Agreements program, readily recog-



nize that trade is beginning to move more freely in response to reciprocal agreements. However, exact measurements of increases is difficult at this point because the agreements have been in effect so short a time. The only countries with whom agreements have been in effect long enough for the United States to make an analysis of results are Canada and Cuba.

It must be remembered that exports and imports are not affected solely by tariff increases or reductions; there are so many alien factors which are hampering the movement of trade, e.g. governmental restrictions, internal economic distress.

The statistics which have been arrived at for Canada and Cuba are voluminous; but a few instances will be cited.

Our exports to Cuba increased from \$35,000,000 in the year preceding the effective date of the agreement, September 3, 1934, to \$55,000,000 in the first year of the agreement, and to \$64,000,000 in the second year, recording a rate of increase far in excess of that for Cuban imports from other countries.<sup>42</sup>

In the first ten months of the trade agreement with Canada, the United States exports to Canada amounted

42. Statement made by Francis B. Sayre before the House during Hearings on House Joint Resolution No. 96, commencing January 21, 1937, "The Conditions in 1934 which the Trade Agreements Act was Designed to Remedy.





to \$315,000,000 as compared to \$274,000,000 in the corresponding period in 1935.

In the industrial field striking increases occurred in the purchases of American automobiles by trade agreement countries. In the first six months of the Canadian agreement, the number and value of motor vehicles imported from the United States more than doubled in comparison with the same period in 1935, while the comparable increase in such exports to all countries was only eight per cent.

During the first six months of 1936 Canadian imports from the United States of industrial machinery affected by the Canadian trade agreement increased on the average by \$1,500,000 per month over the same months of the preceding year. Canadian imports of our agricultural machinery during this period increased from \$3,300,000 to \$5,500,000 or by 67 per cent.

It would be inadvisable to list consecutively the increases in each commodity export and import affected by the trade agreements with the various countries. The instances given are enough to indicate that two-way trade has been stimulated by the conclusion of trade agreements.

#### Opposition to Program

Naturally, there are those who are opposed to the program and who fail to see that the present results warrant a continuance of



negotiations. Some of them are sincerely opposed to it; others quote statistics and cite instances which illustrate their opinions, giving very often only a partial picture of the situation, or neglecting to explain the reasons for conditions.

There seems to have been continued opposition from the farm supporters who decry the increased agricultural imports of the past two or three years. To just quote increased figures would incite the anger of those whose sympathies lie with the farmers. But, when to the figures are added reasons, the picture assumes a different color. The essential facts concerning increases in agricultural products are these: (1) that much of the increase in imports in farm products is in raw materials and foodstuffs which are wholly non-competitive with domestic agriculture and is simply our accompaniment of economic recovery; (2) that most of the remaining increase is in products where severe domestic shortages developed as a result, chiefly of two of the worst droughts in our history; and (3) that trade agreement concessions on farm products, while facilitating somewhat the entry of certain products, have on the whole been a very minor factor in the import situation.<sup>43</sup>

43. Statement made by Francis B. Sayre before the House during Hearings on House Joint Resolution No. 96, commencing January 21, 1937, "The Conditions in 1934 which the Trade Agreements Act was Designed Remedy."





Another point in opposition has been that of the generalization of concessions, the granting to all countries (except such as the President excepts on the ground of discrimination against us) the benefits of any concession made to a particular country in a trade agreement. It is argued that this practice necessarily means a loss to the United States because as regards the imports from third countries we give something for nothing.

Evaluation of the Trade Agreements at this time is extremely difficult--almost impossible. We do not have sufficient data. Then, too, comes the question of how to scientifically analyze the whole question of imports and exports, and all the factors which lie at the roots of both, production, price levels, gold movements, international investments, exchange rates, etc. With these factors influencing trade, who can say which affects it--and how much.

The only view we can take right now is that of noting the imports and exports between the United States and those countries with which trade agreements have been concluded, have been stimulated; diplomatic relations between countries are, at least, aiming at some peaceful state and our leadership in Washington is attempting to provide an outlet for our domestic surpluses.



### Summary

The adventure into trade agreements is trying to break down the prohibitive barriers and resulting retaliation measures, set up by the Hawley-Smoot Tariff. They appear to have been a profitable investment in American statesmanship and a sound and workmanlike piece of tariff bargaining in which we have held our own with some exceedingly shrewd neighbors.

The exponents of the Trade Agreements do not claim for them perfection. They have taken steps forward in the right direction. Since they have only been authorized for three years, and a good part of that time consumed in promotion and drafting, we cannot expect to have too much upon which to draw conclusions.

It is because of this very fact that we owe it to the program and the statesmen behind it to give them an extension of time to improve their agreements and work toward negotiations with the major countries still outside the paling. The agreements had to break down the hatred and bitterness following the high protectionist Hawley-Smoot Tariff before they could begin to build reciprocity. Naturally their steps were impeded.





## CHAPTER VIII

ECONOMIC NATIONALISM vs RECIPROCAL TRADE RELATIONS

The world stands today at one of the major crossroads of human development and progress. On the one hand lies the broad well-beaten highway of normal economic interchange between nations; on the other lies the deceptive by-path of economic nationalism, along whose devious course many countries have already traveled for some distance. Shall we follow this new and unfamiliar detour or shall we continue along the main highway?<sup>44</sup>

Case for  
Nationalism

The plea for economic nationalism or economic independence brings in a discussion of protective tariffs, since our reason for having a high protective tariff is to produce industrial self-sufficiency. We say we must have it, because it lessens the distress due to possible military disasters in time of war. Those in favor of this say that war is inevitable, and during peace the nation must prepare to protect itself by fostering and widening its range of domestic industries. Hence, the high protective tariff to "protect" infant industries. When new industries spring up, if they are to exist, we must have a high

44. Taken from an address by W. E. Dunn, Assistant Director, Bureau of Foreign and Domestic Commerce, Department of Commerce, before a meeting of the Institute of Public Affairs, Southern Methodist University, Dallas, Texas, March 12, 1936.



enough tariff to keep out any products from other countries that would compete with those of the infant industry.

It is claimed that domestic trade should be encouraged because it draws the citizens of a country together and makes them feel their mutual dependence, while international trade, being cosmopolitan, tends to the separation of citizens. This argument characterizes tariff controversies.

### **Danger of Nationalism**

Economic nationalism, which represents an extreme in protection, and other restrictive measures, carries grave seeds of danger from a democratic form of government. The threat of dictatorship becomes more serious as nationalism is increasingly applied. A dictatorship cannot succeed and continue unless there is absolute control over the economic destinies of a country. It is only by restricting the commercial and cultural intercourse of the masses of their people with other peoples of the world that dictators can maintain themselves in power.

Nationalism, through internal maladjustments that it brings about, creates a series of internal pressures which prompt governments to seek relief by recourse to military ventures abroad (Italy and Ethiopia). A properly adjusted and gradually adapted liberal trade program is, therefore, antithetical to the growth of





dictatorship and war and an important safeguard for the maintenance of our form of democratic government.

From this point, let us go to a consideration of points in favor of foreign trade and reciprocal relations.

### Reciprocal Relations

Some of the commonly cited advantages of foreign trade are that there are certain products which we must get abroad that we do not produce at all in this country, such as coffee, silk, rubber, tea, manganese, and other minerals. There are other products upon which we are partly dependent to fill our domestic needs, such as aluminum, sugar, wool, vegetables, etc. Obviously it is to our advantage to import these products. If we did not import them, great inconvenience and hardship would result.

A volume of imports, large enough to be fairly competitive but not disruptive because of excessively low prices, has a stimulating effect upon domestic production. Just as competition within a country exercises a healthy influence and works generally to prompt and bring about greater efficiency in production, so do imports from other countries have a similar effect. Several of our most inefficient low-wage industries have grown up behind high protective walls, while other industries subjected to a reasonable amount of foreign competition in domestic markets have reported a more efficient and



expansive development. Imports serve as an additional discipline that keeps domestic producers alert, and doubtless influences a greater long-run improvement in efficiency, thus resulting in lower prices to the consumer.

In order to maintain the traditionally high standard of living of this nation and at the same time maintain economic peace, we must allow other nations to sell to us as well as buy from us. World trade has already been developed to the point where it would be dangerous to the economic peace of the world to stop it.

Our standard of living depends upon our finding a market for our production and is also dependent upon the importation of certain commodities which we do not produce.

Political boundaries and government control follow strictly national lines, but economic boundaries and productive peculiarities follow international lines. It has been natural, therefore, that international realities should be obscured by national sentiment.

Foreign trade is further complicated by the fact that economically nations have not progressed uniformly. As a result, the comparative standards of living show great differences. This means inequities in wages, costs, and prices, which make mutual trading relations more difficult. From both an economic and social viewpoint, the objective of the human race is a greater total production and a more adequate distribution of the





benefits of this production. The problem becomes that of doing everything possible to assist in improving the standards of living of the more backward countries so that they may make greater contributions toward total world productivity. The only way this can be accomplished is through the establishment of a more effective basis for world trade. The concrete problem of the United States is that of developing a balanced middle-way program which will contribute to the improvement of world conditions while bringing about constantly enlarging benefits to our own country.<sup>45</sup>

Foreign trade is an integral part of economic activity. When this one trade thoroughfare is closed off, congestion results and the entire economic system is adversely affected.

Nationalism in its broadest aspects implies that the responsibilities of countries stop with their boundaries. Internationalism, on the other hand, signifies that each country has a responsibility in improving the welfare and assuring a safe future for humanity.

It is ridiculous that appraisals of foreign trade should be based upon extremes in policy and action of either nationalism or free trade. Either absolute nationalism or absolute free trade would be ruinous.

45. Taken from address given by Chester H. McCall, Special Assistant to the Secretary of Commerce, before the Houston, Texas, Foreign Trade Association, May 22, 1936, "Foreign Trade--The Middle Way".



Since the World War nation after nation has surrendered to the onslaught of economic nationalism. Tariff walls have been heightened; arbitrary quota restrictions against imports have been imposed; government trading monopolies have been instituted; exchange controls have been set up; preferential treatment and provocative discriminations have become the accepted procedure in trade.<sup>46</sup>

With the unprecedented heightening of old trade barriers and building up of new ones following 1929 has come a staggering drop in international trade. Between 1929 and 1933 the value of international trade dropped to about a third of its former value.

Unless nations succeed in disarming economically and taking common steps for the liberalization of world trade, economic breakdown is inevitable. Breakdown means unemployment, starvation wages, bankruptcies and impaired standards of living, and sooner or later armed conflict.

The fact is that international trade is an essential part of our national economy. The value of our cotton, our wheat, our lard, our automobiles, and the like, depends directly upon whether or not we can find markets for them. Value attaches to goods because

46. Taken from address given by Francis B. Sayre, at the World Trade Conference, Detroit, Michigan, March 10, 1936, "Trade Policies and Peace".





they can be exchanged for other goods. A nation's wealth is as vitally dependent upon the possession of markets, to which its goods have access, as upon the possession of the goods themselves. National wealth depends upon trade.

Of vital consequence is the effect of unsalable surpluses on domestic enterprises. Unsold surpluses, by glutting home markets, demoralize the prices received for that part of the output or crop sold at home and thereby spread havoc and cause dislocation throughout the industry or occupation. The resulting repercussions are nation-wide and affect producers who themselves do not sell abroad. Unquestionably one of the substantial causes for the widespread suffering and unemployment which we have been experiencing since 1929 has been the loss of foreign markets.

Under a system of self-sufficiency the only alternative for unsalable surpluses is an arbitrary restriction of production; and this would involve not only a lessening of national wealth and income and thereby reduce and limit the American standard of living, but it would also necessitate a degree of regimentation and strait-jacketing of agriculture and business quite incompatible with the American spirit.

#### Summary

It is up to us to decide, then, what course is the better for the United States and which one



we, as citizens, will encourage. The underlying philosophy of this bend toward nationalism is articulated in trade by the "Buy American" slogan. It comprehends all those narrow policies of trade exclusion and discrimination which come under the general term of economic nationalism. It is based on the notion that the United States not only can, but should, preserve a national economy separate and apart from that of the rest of the world.

For a nation like the United States with an intricate and highly complex industrial organization and with economic ramifications extending to every corner of the globe to go in for economic nationalism or economic self-sufficiency would be sheer suicide. Foreign markets are chiefly important for the part they play in making possible a large and expanding prosperity for industries in this country.<sup>47</sup>

This conclusion is borne out by the experience of other nations which have adopted such policies. Germany probably provides the best illustration of how such policies work out. That country not only exercises rigid control over imports and exports, but its control over the internal life of the nation is no less thoroughgoing.

47. Reciprocity--A National Policy for Foreign Trade, by William S. Culbertson, published by McGraw-Hill Book Company, Inc., Whittlesey House, 1937, Page 145.





When we view the situation of countries like Germany and Italy, which are operating under a dictatorship, with self-sufficiency one of the nations' objectives, even without more than a cursory knowledge of conditions there, I'm sure we feel that that is not what we want for the United States. A way out--or at least an attempt to find the way out--is presented to us through the Trade Agreements which aim to produce equable trade relationships.



## CHAPTER IX

FUTURE POLICY FOR FOREIGN TRADE**Review of  
Problem**

Thus far, through the brief reviewing of trade policies, reciprocity experiences, and tariff background of the United States, we have seen something of the trade relationship between the United States and foreign countries. We have noted through the Trade Agreements concluded, the attempts which are now being made by forward-looking statesmen to re-invigorate our trade and encourage trade highways to again function for two-way traffic.

The problem put before us is, I think, one to be considered carefully from various angles. Should we have a national policy in regard to our commercial relationships with other countries, or should we leave tariff and reciprocal agreements to the political parties for them to take sides on, and approve or disapprove, irregardless of economic necessities. There comes the question of whether economic isolation is possible when we are so closely related to other countries through our foreign-born citizens, to say nothing of our funds being invested abroad.

These, and a host of other questions arise, as we consider what our future policy should be in regard to





the whole question of reciprocity and Commercial Treaties. The "New Deal" administration apparently decided that our move should be toward fostering reciprocal trade relations and to that end, the United States Congress authorized the President, through the Trade Agreements Act of 1934, to start negotiations with foreign countries.

We have set down heretofore, the process through which data is collected, evaluated, and finally accepted, before an agreement is drafted and submitted for approval. A big step forward in this program is the granting to the President this power of negotiating, instead of insisting that each agreement come to Congress for ratification. In this way activities are speeded up--and agreements do not run the risk of being tabled, a procedure which is felt to be valuable in diplomatic affairs.

Congress limited the authority of the President by stating the confines above or below which he may not go in revising schedules. By doing this, the trade agreements may be more flexible as to duties, and can more easily and accurately reflect the changing economic conditions. The lag of legislative action behind economic change is usually so great that emergencies come and are acute before cognizance can be taken of them.

**Extension of Trade Agreements**      Now that we have an instrument to make an opening wedge in reciprocal trade agreements, it would seem that it might be wise for us to



continue using it. We will concede the point that these agreements are in no way perfect, but they are an attempt in the right direction. Eventually, with continued research and study, they will be refined until they are as adequate to our economic needs and national well-being as it is possible for agreements made by a composite group of human beings can be.

A law extending the provisions of the Act for another period of three years was passed, and so there is another period in which we can trace the effect of those agreements already in effect, and on the basis of those, evaluate to some extent the worth of the agreements. We can learn from them things to do, and things not to do. We can learn from the hope of future international negotiations. Since it is an experiment, we expect it to be changed if better ways are found of solving the situation.

The future of foreign relationships lies, I think, in these trade agreements or in some liberal trade policies, which are reached after deep and careful study, and are administered as a national policy--not as a plank in a political platform.

The United States seems to be in a better position than other nations to take the initiative in this attempt at international cooperation, and as a leader might be expected to assume that responsibility. Particularly might she do this, when the surpluses of her





production need favorable outlets, else production be curtailed.

"We have come therefore to a period in our national history which demands in the interests of national prosperity lower and more flexible tariffs. Imports should be viewed as a payment for foreign peoples of their debts and obligations to the American people. The ability to absorb increasing imports is evidence of national prosperity and a rising national standard of living; they are evidence of the successful disposition, in foreign markets, of surplus goods produced by American labor and capital and our surplus savings. A discriminating increase in imports is one of the means not only to dispose of our accumulating surpluses but also to increase the volume of trade which, when it comes, will be the evidence of real recovery.

**Economic**                      We have become a world state, economi-  
**World**  
**State**                      cally speaking, whether we like it or not. Our overseas expansion will go on, whether we like it or not. For the time being we are in a period of pause. This one of the reasons why we do not have the prosperity which we long for. The statistics of world trade still reflect depression. As large industries return to their normal production they will seek markets in other countries. As investors return to the investment market they will seek opportunities to invest their



funds abroad. Wise statesmanship will adjust our policy to these natural tendencies. In the workaday world an intelligent choice of policies is necessary. I know of no substitute for judgment and wisdom based on knowledge and experience.

**Need for International Cooperation** "Those individuals and classes who cherish with special concern the political and economic traditions of our nation can save the spirit and essence of those traditions by giving American resources and enterprise a world stage on which to perform. They can render unnecessary socialistic schemes and measures and preserve sound nationalism by liberalizing our commercial policy at home and by advocating multilateral treaties and international economic relations which are unregulated and which are dealt with at present ineffectively by nations acting singly and bargaining two by two."<sup>48</sup>

48. Reciprocity--A National Policy for Foreign Trade, by William S. Culbertson, published by McGraw-Hill Book Company, Inc., Whittlesey House, 1937, Page 55.





## CHAPTER X

CONCLUSION

With this brief, and necessarily limited, survey of some of the basic factors which constitute our foreign trade policy, we arrive at various conclusions.

It seems to be acknowledged by many that a good deal of the difficulty with the foreign trade relations of the United States has been in the attitude of the people and government toward it, and the subsequent action taken.

The United States has formulated policies particularly for export trade, accepting import trade as to be coped with only if, and when, necessary. The attempt seems to have been to sell our commodities in favorable markets, assuming, of course, that foreign countries should be willing and anxiously awaiting them, while, at the same time, any commodities which these self-same countries attempted to sell into our country, were met by a solid, sky-high tariff wall.

Somehow, because of the proportions which foreign trade must necessarily assume, one of the fundamentals of human existence, that "giving and taking" has been overlooked. It is too often true that the facts closest to us, and which ought to be apparent, are too close to be in our line of vision and are obscured in our search for



greater ends. This business of trading must be remembered to be a two-way highway and traffic will not continually move in one direction only.

The United States is no longer a debtor nation but continues to act as one, by preventing goods from coming into the country by restrictions, but seeking a market out to which our goods may go. The countries who owe money to the United States are having no opportunity to pay their debts because they have limited markets for their exports.

An attempt to remedy this situation has been made through these Commercial Treaties which have been, and are being, formulated under the Act of June 1934. The way will probably be slow, but the fever for economic nationalism will have to be checked before too much progress can be achieved.

It is recognized that the foreign trade of the United States is small compared with its domestic trade, but it is an integral part of the existence of the nation and its cessation would mean a partial crippling, at least, of the effectiveness of the country. Foreign trade seems a logical outlet for commodities which countries produce to the best advantages. Then, too, there are products which some countries just do not have and must have. How else, except through foreign trade can they be obtained.





Perhaps there are those who would say that there should be no place in Economics for the study of human behavior, but it must needs be a part of it. Whether or not we insist upon "living alone" as a nation, there still remains the fact that the other nations do exist, are carrying on relationships with each other, and eventually we must be aware of that existence. It does seem to me, in this question of foreign trade that just as "man cannot live unto himself alone," neither can nations live unto themselves alone.

Just how, then, relationships can be best carried out for mutual benefit remains to be seen. Since these relationships, their creation and guidance, must be in the hands of human beings, there will be adjustments which will have to be made from time to time to meet new situations and circumstances, but it does seem as if these changes could be made without an upheaval of all the good that already has been proved to exist in the present arrangements. Reciprocity should be a national--not a partisan policy.

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